

RECEIVED

MAR 10 1993

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

RECEIVED

MAR 10 1993

FCC - MAIL ROOM.

Before the  
Federal Communications Commission  
Washington, D. C. 20554

In the Matter of	)	CC Docket 92-296
	)	Public Notice of
Simplification of the Depreciation	)	December 10, 1992
Prescription Process	)	

COMMENTS TO  
NOTICE OF PROPOSED RULEMAKING

FILED BY THE OKLAHOMA CORPORATION COMMISSION  
PUBLIC UTILITY DIVISION

The Oklahoma Corporation Commission, Public Utility Division, ("The PUD") respectfully submits these comments in response to the FCC's Notice of Proposed Rulemaking adopted December 10, 1992, in CC Docket No. 92-296. It should be noted that these comments are only those of the PUD Staff, and don't necessarily reflect the thoughts or position of the Oklahoma Corporation Commissioners.

The PUD is in general agreement with the FCC Staff's tentative conclusions and recommendations on several issues, including using industry-wide data as a basis to determine ranges, price cap treatment, use of separate ranges for IXCs and LECs, and utilizing a five-year review period. The PUD would recommend that the FCC adopt the rate range option, for the reasons set forth herein.

The PUD believes that the rate range option will adequately insure that reasonable and appropriate depreciation rates are prescribed and utilized by the various carriers, and that significant benefits will flow from the simplification realized

0+4

from this option. Also, the range of rates option more closely approximates the procedures currently utilized by many states, thereby making it more usable and understandable at the state level. In the alternative, The PUD would support, as a second-best option, that of the basic factor range option. The PUD would not recommend either the depreciation schedule option or the price cap carrier option.

Concerning the issue of whether or not to establish ranges for all plant accounts, the PUD feels that, although it might be desirable to gain experience with a few accounts before dealing with all accounts, it would be reasonable to commence implementation for all accounts at the beginning of the conversion to the simplification process. The PUD would support the FCC Staff's tentative conclusion that the appropriate width of the range should be limited to plus or minus one standard deviation about the industry mean. One standard deviation would be narrow enough to eliminate outlying depreciation rates while providing sufficient breadth to encompass over 2/3 of the actual rates currently employed by the carriers. Further, the PUD feels that an appropriate waiver standard should be established which will accommodate those carriers whose actual rates vary substantially from the established range.

As long as carriers are allowed to come within the range initially, all carriers should be treated fairly from the start of the process. It would also be the PUD's recommendation that some form of exception process be developed for carriers who can

demonstrate that the ranges, as initially established, were inappropriate for full recovery of depreciation expense. From this, experience could be gained and allowances or deviations from the initial process granted as time passes. This is based upon the PUD's recommendation that the conversion to a simplified process be mandatory, as discussed further below.

The PUD would agree with the FCC Staff's tentative conclusion that all carriers should be mandated to implement the rate range option for all applicable accounts. Mandating use of the rate range option appears reasonable. The PUD acknowledges that some carriers might wish not to use the simplification process, but without a mandatory provision, we will only have "part of a simplification process". Further, the PUD would point out that several states already have simplification procedures in place, and that the rate range option should not unduly constrain existing simplification procedures employed by the states. It is acknowledged that many carriers will likely want to use the same level of detail at both the federal and state levels, where possible. Most state simplification processes are no simpler than the rate range option, and while other states may require more detailed support for depreciation, compliance on a state-by-state basis will not affect the overall compliance with the rate range option at the federal level. Therefore, the states with more protective depreciation processes will not be preempted by adoption of a more simplified federal approach.

A process to permit carriers to request an exception should be developed to allow for deviations from the initially established ranges. Acceptable waiver criteria would include state regulatory orders dealing with accelerated retirements and exceptionally high or low reserve ratios in dying or problem accounts. The PUD would agree with the FCC Staff's tentative conclusion that carriers should be required to show a significant divergence between their expected depreciation expense and that resulting from the use of ranges before a waiver is granted.

The PUD would recommend that a slight deviation from the rate range option might be appropriate for certain accounts for certain carriers. For any carrier with an account which is dying, experiencing exceptionally high or low reserve ratios, or for which state regulation has substantially affected the life of the account, the PUD feels it reasonable to allow the carrier to alternatively use the basic factor range option. This would naturally mean that more work would be required for all involved in establishing the ranges for the various parameters, but it should be nowhere near the complexity of using the current procedures or the basic factor range option exclusively. Also, at the first and/or second review of the ranges, analysis can be made as to whether or not those carriers with troubled accounts are now falling within the range of the established rate ranges. It is possible that the base factor range exception discussed here could be eliminated at that time.

The PUD would expect carriers to maintain internally the same data and analysis procedures as they now have for at least the first few years of any simplification procedure. The continued record-keeping would be necessary for the carriers to assure themselves that the simplification process is not detrimental to them and that their reserve requirements are being neither over- nor under-recovered by their current rate. Therefore, the PUD recommends that at the end of the first five-year interval, the same degree of analysis that was used to establish the initial ranges be used to establish the second set of ranges. Based upon what this second analysis shows, and based upon the experience gained over the first five years of the simplification process, future range settings could be done on a much broader and simpler basis.

To insure that depreciation expenses and reserve ratios are progressing as desired, from both the carrier's and the regulator's point of view, it would be necessary to establish monitoring procedures. These procedures would monitor such things as the reserve ratios and requirements put upon carriers at the state level. In addition, this monitoring process would also guard against over- or under- depreciation during the useful life of the account, or any possible abuses that might occur with this simplification process. The PUD does not at this time have specific recommendations as to the extent of monitoring or the procedures to be employed in the monitoring phase of the program. Also, once experience with the depreciation simplification process

is gained by both the carriers and the regulators, the monitoring process will need to be reexamined.

Salvage should be treated as a separate rate, which changes independently of the basic depreciation rate, but which is treated as part of the total depreciation rate that is utilized in determining the depreciation expense (basic depreciation rate + net salvage rate = total depreciation rate). This would allow the basic depreciation rate to be changed on a much less frequent basis than the net salvage rate, due to the higher degree of volatility of net salvage. As an alternative to the net salvage rate discussed above, the approach of treating gross salvage and cost of removal as current period charges and credits, would be acceptable. The PUD's only concern is the impact that large retirements may have on earnings in any one year. Only through experience would we be able to address this and its effect on revenue rates.

#### SUMMARY

1. The PUD is in general agreement with the FCC Staff's tentative conclusions and recommendations on several issues, including using industry-wide data as a basis to determine ranges, price cap treatment, use of separate ranges for IXC's and LEC's, and utilizing a five-year review period.
2. The PUD would recommend that the FCC adopt the rate range option. In the alternative, the PUD would support, as a second-best option, that of the basic factor range option.

The PUD would not recommend either the depreciation schedule option or the price cap carrier option.


3. The PUD feels that, although it might be desirable to gain experience with a few accounts before dealing with all accounts, it would be reasonable to commence implementation for all accounts at the beginning of the conversion to the simplification process.
4. The PUD would support the FCC Staff's tentative conclusion that the appropriate width of the range should be limited to plus or minus one standard deviation about the industry mean.
5. Carriers should be allowed to come within the range initially.
6. It would be the PUD's recommendation that some form of exception process be developed for carriers who can demonstrate that the ranges, as initially established, were inappropriate for full recovery of depreciation expense.
7. The PUD would agree with the FCC Staff's tentative conclusion that all carriers should be mandated to implement the rate range option for all applicable accounts.
8. A process to permit carriers to request an exception should be developed to allow for deviations from the initially established ranges.
9. The PUD would expect carriers to maintain internally the same data and analysis procedures as they now have for at least the first few years of any simplification procedure.
10. The PUD recommends that at the end of the first five-year interval, the same degree of analysis that was used to

establish the initial ranges be used to establish the second set of ranges.

11. The PUD would recommend that a slight deviation from the rate range option to the basic range option might be appropriate for certain accounts for certain carriers.
12. To insure that depreciation expenses and reserve ratios are progressing as desired, from both the carrier's and the regulator's point of view, it would be necessary to establish monitoring procedures.
13. Salvage should be treated as a separate rate, which changes independently of the basic depreciation rate, but which is treated as part of the total depreciation rate that is utilized in determining the depreciation expense (basic depreciation rate + net salvage rate = total depreciation rate). As an alternative to the net salvage rate discussed above, the approach of treating gross salvage and cost of removal as current period charges and credits, would be acceptable.

Respectfully submitted,

OKLAHOMA CORPORATION COMMISSION  
PUBLIC UTILITY DIVISION

By:   
Maribeth D. Snapp  
Deputy General Counsel

Oklahoma Corporation Commission  
Public Utility Division  
400 Jim Thorpe Office Building  
Oklahoma City, OK 73105

March 9, 1993